

BEFORE THE TENNESSEE REGULATORY AUTHORITY

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IN RE:

APPLICATION OF JACKSON ENERGY :
AUTHORITY FOR A CERTIFICATE OF :
CONVENIENCE AND NECESSITY TO :
PROVIDE TELECOMMUNICATIONS :
SERVICES AS A CARRIERS' CARRIER :

Docket No. 03-00438

PRE-FILED REBUTTAL TESTIMONY
OF
KIM KERSEY,
SENIOR VICE PRESIDENT - TELECOMMUNICATIONS,
JACKSON ENERGY AUTHORITY

1 I, Kim K. Kersey, do hereby testify as follows in support of the Application of the Jackson
2 Energy Authority (“JEA”) for a Certificate of Convenience and Necessity as a Carriers’ Carrier
3 (the “Application”) to provide certain telecommunications services in Madison County,
4 Tennessee:

5
6 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

7 A: My name is Kim K. Kersey. I am the Senior Vice President of the Telecommunications
8 Division of the Jackson Energy Authority.

9
10 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

11 A: As Senior Vice President of the Telecommunications Division, I have the responsibility
12 for managing the operations of JEA within its Telecommunications Division. I report
13 directly to the Chief Executive Officer of JEA.

14
15 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL
16 BACKGROUND.**

17 A: I have been in the cable television industry since 1971, working in senior management
18 positions for the past 23 years. I was promoted to General Manager of the Teleprompter
19 Cable TV system in Tuscaloosa, Alabama in 1980 and served in that capacity through
20 subsequent owners Group W Cable and Comcast Corporation until 1992. I relocated to
21 Jackson, Tennessee to become Area General Manager for Cablevision Industries’ 32,000
22 subscriber West Tennessee cable television operations. After Charter Communications
23 acquired the West Tennessee properties in 1998, I was promoted to Director of

1 Operations for Charter's group of cable systems serving over 90,000 cable subscribers in
2 West Tennessee and West Kentucky. In November 2001, I left Charter to head up the
3 JEA venture.

4
5 Throughout my career, I have been directly involved in all facets of cable television
6 operations, including general management, customer service, government relations,
7 marketing, and construction management. I have served as two-term Board Chairman for
8 both the Alabama and Tennessee Cable Television Associations, and I am a member of
9 the honorary Tower Club in the Southern Cable Television Association. I am active in
10 local community activities, having served on the Jackson Chamber of Commerce Board
11 of Directors and Executive Committee, as well as leadership positions in several local
12 organizations. I hold a B.A. degree from Rhodes College in Memphis, Tennessee.

13
14 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A: The purpose of my testimony is to respond to aspects of the pre-filed testimony of Mr.
16 William J. Barta, which was submitted on behalf of Charter Communications in this
17 docket.

18
19 **Q: PLEASE SUMMARIZE YOUR TESTIMONY.**

20 A. Mr. Barta has raised accounting and regulatory questions concerning the telephone
21 business unit. I will provide additional detail concerning the operational and financial
22 aspects of the telephone business unit. This should help the Directors will help put the

1 telephone business unit in perspective compared to JEA's cable and internet business
2 units.

3
4 Mr. Barta has also suggested that JEA has not submitted sufficient information
5 concerning the financial and operational aspects of the cable and internet operations in
6 order to permit the Authority to analyze the entire operations of the Telecommunications
7 Division as a whole. While we do not agree with the relevance of that information for
8 this matter, I will provide additional information concerning the fundamentals of its cable
9 business plan.

10
11 **Q. PLEASE DESCRIBE THE OPERATIONAL ROLE OF THE TELEPHONE**
12 **BUSINESS UNIT UNDER JEA'S CURRENT BUSINESS MODEL.**

13 A. The carriers' carrier model will enable JEA's CLEC customers to utilize the JEA network
14 to provide telephone and other telecommunications services to their end use customers.
15 This model has significantly reduced the role of the telephone business unit from an
16 operational standpoint. As we indicated in the Application, our CLEC customers – rather
17 than JEA – will have most of the operational and capital investment responsibilities
18 traditionally associated with the provision of retail local exchange and other
19 telecommunications services. Our CLEC customers – rather than JEA – will be
20 responsible for providing all end use services required by law or regulation, for
21 negotiating an interconnection agreement with BellSouth, for negotiating arrangements
22 with long distance carriers, and for handling dialing parity and numbering issues. Our
23 CLEC customers – rather than JEA – will be required to establish an interface with the

1 fiber to the home network, to purchase a soft switch and to make arrangements for the
2 interconnection with BellSouth. Meanwhile, the JEA telephone business unit's role will
3 be to provide on-network connectivity for these services and to offer certain support
4 services to these CLEC customers on an as-needed basis.

5
6 **Q. HOW IS THIS OPERATIONAL ROLE REFLECTED IN THE PRO FORMA**
7 **FINANCIAL STATEMENTS FOR THE TELEPHONE BUSINESS UNIT?**

8 A. Since the telephone business unit will make use of a relatively small portion of the
9 available bandwidth on the network for CLEC customers and will provide support
10 services to CLEC customers using allocated resources, we do not presently anticipate that
11 any facilities or any employees will be directly assigned to the telephone business unit.

12
13 **Q. PLEASE EXPLAIN WHY YOU DO NOT PRESENTLY ANTICIPATE THAT**
14 **ANY FACILITIES OR EMPLOYEES WILL BE DIRECTLY ASSIGNED TO THE**
15 **TELEPHONE BUSINESS UNIT.**

16 A. As Mr. Williams indicated in his direct testimony, the capabilities of a fiber to the home
17 network are unique. In order to provide cable and internet service, JEA will purchase and
18 install fiber optic facilities, a head-end facility and related equipment, and customer
19 gateways. These same facilities can be configured in order to provide a portion of the
20 communications path that would be necessary to transport telephone and
21 telecommunications service to end use retail customers who are located on the network.
22 In order to use the network to carry these services, a CLEC customer would be required
23 to establish an interface with the network, purchase and install its own soft switch and

1 arrange for interconnection with BellSouth. However, because the available bandwidth
2 for these services resides within the existing capacity of JEA's network, we presently
3 anticipate that JEA can provide this bandwidth to its CLEC customers without additional
4 equipment and without the need for directly assigned employees within the telephone
5 business unit. We anticipate that telephony traffic will represent a relatively small
6 increase in the overall bandwidth consumption that the cable business unit network
7 employees will manage.

8
9 **Q. ON PAGE 8, LINES 25-26 OF HIS TESTIMONY, MR. BARTA STATES THAT**
10 **"IT IS [JEA] MANAGEMENT'S POSITION THAT ABSOLUTELY NO**
11 **NETWORK INVESTMENT WILL BE ASSIGNED OR ALLOCATED TO THE**
12 **TELEPHONE BUSINESS UNIT." IS THAT STATEMENT CORRECT?**

13 **A.** No, it is not. As Mr. Barta points out, Mr. Williams did state in his testimony that the
14 telephone business unit will have "no fixed assets . . . directly assigned to it." However,
15 Mr. Williams did not state that no network investment would be allocated to the
16 telephone business unit. In fact, network investment will be allocated to and recovered
17 from the telephone business unit through an access charge.

18
19 **Q. ON PAGE 9, LINES 22-24 OF HIS TESTIMONY, MR. BARTA ALSO**
20 **QUESTIONS "HOW THE TELEPHONE BUSINESS UNIT CAN BE**
21 **CONSIDERED AS A FACILITIES-BASED CARRIERS' CARRIER WITHOUT**
22 **OWNING ANY FACILITIES OR HAVING ANY EMPLOYEES." PLEASE**
23 **RESPOND TO THAT QUESTION.**

1 A. Although the telephone business unit will not directly own any facilities or have any
2 directly assigned employees, it will utilize the JEA fiber optic network facilities and will
3 have access to JEA employees as needed.
4

5 **Q. PLEASE EXPLAIN HOW JEA WILL RECOVER ITS NETWORK**
6 **INVESTMENT AND EMPLOYEE COSTS FROM THE TELEPHONE BUSINESS**
7 **UNIT.**

8 A. Mr. Work will address this issue in his testimony.
9

10 **Q. PLEASE PROVIDE ADDITIONAL DETAIL CONCERNING THE “ACCESS**
11 **CHARGE TO CABLE UNIT” LINE ITEM IN THE PRO FORMA INCOME**
12 **STATEMENT FOR THE TELEPHONE BUSINESS UNIT.**

13 A. The “Access Charge to Cable Unit” is designed to cover the telephone business unit’s
14 allocated cost for access to the JEA network and use of employees as well as to provide
15 additional funding for the cable business unit’s retirement of its debt. The access charge
16 ramps up over time, as the telephone business unit generates sufficient working capital
17 for its anticipated and unanticipated expenditures. In Year 1 of the pro forma income
18 statement, the Access Charge to Cable Unit represents thirty percent (30%) of the
19 “Access fees for telephone” line item of the income statement. In Year 2, the percentage
20 increases to forty percent (40%), and in Year 3, the percentage increases to fifty percent
21 (50%).
22

1 **Q. PLEASE EXPLAIN HOW THE “ACCESS CHARGE TO CABLE UNIT”**
2 **ALLOWS THE CABLE BUSINESS UNIT TO RECOVER THE TELEPHONE**
3 **BUSINESS UNIT’S ALLOCATED COST FOR ITS USE OF THE NETWORK.**

4 A. In his testimony, Mr. Work will address the cost allocation model that captures capital
5 costs and associated operating expenses for the network. We have established an
6 allocation factor to calculate the allocation of network costs to the telephone business
7 unit, and we have provided it to Mr. Work.

8
9 In order to fully understand the allocation factor, some additional information concerning
10 the network may be helpful. I have attached as Exhibit KK-1 a simple schematic
11 illustrating the general configuration of some key parts of the network. From the JEA
12 cable television head end facility, JEA will connect five separate fibers to a device that
13 Wave 7 Optics refers to as a “core.” The role of a “core” is essentially to aggregate
14 traffic and manage bandwidth across the network. As this exhibit shows, three of the five
15 fibers from the head end to the “core” are dedicated for cable television video services.
16 The remaining two fibers are dedicated to internet and voice use; one fiber is used for
17 downstream traffic and the other fiber is used for upstream traffic. JEA can then connect
18 up to 96 customer gateways to each “core,” and through the use of optical splitters,
19 multiple customers can share a single fiber for their cable television, internet, and voice
20 services.

21
22 Because the cable, internet and telephone signals are aggregated in the “core” on to a
23 single fiber going to the customer gateway, we have used the network configuration from

1 the head end to the "core" to develop a cost allocator to confirm that network costs are
2 recovered from the telephone business unit. Of the five fibers from the head end to each
3 "core," three are dedicated to cable television, resulting in a sixty percent (60%)
4 allocation of the network costs. The remaining two fibers represent forty percent (40%)
5 of the total fiber network costs from the head end to each "core," and internet traffic and
6 voice traffic share those two fibers. We calculated an allocation factor for the telephone
7 business unit based upon the average bandwidth that would be used for each application
8 on these two fibers.

9
10 **Q. PLEASE PROVIDE ADDITIONAL DETAIL CONCERNING THE "OPERATING**
11 **AND MAINTENANCE" LINE ITEM IN THE PRO FORMA INCOME**
12 **STATEMENT FOR THE TELEPHONE BUSINESS UNIT.**

13 A. The Operating and Maintenance line item in the telephone business unit pro forma
14 income statement captures expenses within the Telecommunications Division that are
15 directly assigned or allocated to the telephone business unit. The expenses for Year 1 are
16 based upon projected directly assigned and allocated expenses for fiscal year 2004 and
17 account for 15.3% of the total operating expenses in the Telecommunications Division.
18 The Year 1 expenses of the telephone business unit also contain additional initial start-up
19 and organizational costs. The amounts for Year 2 and Year 3 are based upon projections
20 of somewhat declining percentages of 11.5% and 10.8% of the Division's overall
21 operating expenses, as the earlier heavy marketing activity and organizational expenses
22 subside and employee support begins to normalize.

1 **Q. HOW WILL THE TELEPHONE BUSINESS UNIT GENERATE REVENUES TO**
2 **COVER THESE EXPENSES?**

3 A. The telephone business unit will charge JEA's CLEC customers an access fee for access
4 to the JEA network and for any support services that the CLEC customers choose to
5 purchase from JEA.

6
7 **Q. HOW DID JEA CALCULATE THE "ACCESS FEES FOR TELEPHONE" LINE**
8 **ITEM IN THE PRO FORMA INCOME STATEMENT FOR THE TELEPHONE**
9 **BUSINESS UNIT?**

10 A. We made projections based on market penetration of residential and commercial
11 customers, and assumptions on the rates that our CLEC customers would be able to
12 charge for residential and commercial telephone services. The customer projections were
13 generated internally, with reliance upon independent surveys, guidance from a consultant,
14 experience we observed in similar competitive markets offering telephone service, and
15 discussions with one potential CLEC customer as to the reasonableness of our
16 projections. Retail rate assumptions were developed from local market research that we
17 conducted internally with some of our customers, discussions that we had with a potential
18 CLEC customer, and consultant guidance.

19
20 From the resulting total retail revenue, we derived an access fee from the CLECs of 50%
21 of the CLEC customers' local service and feature revenues. The pro forma access fee
22 revenue line item also includes charges for some of the support services that we indicated

1 in our Application would be offered to CLECs. The support service charges are not
2 broken out from the access fee revenue line item in the pro forma, but are included.

3
4 The pro forma's operating revenue shows a fairly small amount of revenue in Year 1,
5 stepping up significantly in Years 2 and 3. As we put the pro forma together, we aligned
6 it with our current fiscal year that runs from July 1 to June 30. From our July 15th TRA
7 application filing, we projected a certificate award in October, plant construction starting
8 in November, and our customer connection activity starting in March. Therefore, the
9 Year 1 revenue is only generated over the four months of March through June within the
10 area of completed construction. In Year 2, our projections include the continuation of our
11 build out and show a full year of subscriber growth activity. In Year 3, our projections
12 assume a completed build out and heavy customer connection activity.

13
14 **Q. PLEASE PROVIDE A SUMMARY OF JEA'S CABLE AND INTERNET**
15 **BUSINESS CASE.**

16 A. Since the filing of the Application, we have obtained \$54.3 million in funding to finance
17 the construction and operation of the cable and internet system. Under our present
18 projections we estimate positive cash flow by year 5 and continuing thereafter. We
19 project positive net income by year 4 and continuing thereafter.

20
21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes, it does.

I swear that the foregoing testimony is true and correct to the best of my knowledge, information and belief.

Kim K. Kersey
Kim K. Kersey
Senior Vice President - Telecommunications
Jackson Energy Authority

Subscribed and sworn to me this 4th day of November, 2003

Amanda Sullivan
NOTARY PUBLIC

My commission expires September 22, 2007

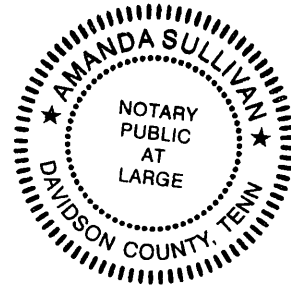


EXHIBIT KK-1

Overview of network configuration

